

(COPY.)

No. 34.

DOWNING STREET,
12th April, 1860.

SIR,

I have the honor to acknowledge the receipt of your Despatch, No. 122, of the 24th November enclosing a copy of a Report of a Committee of the Executive Council of Canada, approved by yourself, in which the Committee recommend the establishment of reciprocal Free Trade between the British Provinces in North America.

Having referred this Report for the consideration of the Lords of the Committee of Privy Council for Trade, I transmit a copy of their Lordship's reply.

I have, &c.

NEWCASTLE.

The Right Honble. SIR E. HEAD, Bart.

Mr. Booth to the Under Secretary, Colonial Office.

OFFICE OF COMMITTEE OF PRIVY COUNCIL FOR TRADE,
Whitehall, 14th March, 1860.

SIR,

The Lords of the Committee of Privy Council for Trade, have had under their consideration your letter of the 23rd December last, transmitting for their opinion, by direction of the Duke of Newcastle, a copy of a Despatch from the Governor of Canada, enclosing a Report by a Committee of the Executive Council of the Province, recom-

Firstly—The extension of existing arrangements by which certain productions of the British North American Provinces are reciprocally admitted duty free, so as to include all articles, the produce or manufacture of such Provinces.

Secondly—The assimilation of their respective Tariffs so as to permit complete freedom of trade between them.

I am to request that you will submit to his Grace the following observations on the subject of these propositions :

My Lords have on several former occasions expressed their objections to the policy of the arrangements which the first of these recommendations proposes to extend. They more especially desire to refer the Duke of Newcastle to their letter to the Colonial Office of the 26th June, 1855, which was communicated by Sir Wm. Molesworth in a Circular Despatch of the 11th August of that year to the Governors of the several West Indian Colonies.

To the opinions expressed in that letter, and in the Circular Despatch of Sir Wm. Molesworth, my Lords still adhere.

The distinct and formal nature, however, of the proposal now under consideration, and the strong disposition which has been repeatedly evinced by some of the North American Provinces, and West India Islands, to enter upon the course of legislation to which Her Majesty's Government on that occasion thought it necessary to object, has led my Lords to consider, whether it may be possible in any degree to meet the views of the Executive Council of Canada without seriously compromising the rules of Commercial policy which, in their opinion, it is of the highest importance to maintain.

The fundamental principle of the policy of Free Trade is that no duty of Custom shall be imposed except for the purpose of Revenue. To give effect to this principle is necessary either to levy import duties upon those articles *alone*, which are produced in the importing country—or to place an Excise or Internal duty on the amount to the import duty upon those articles which are produced both in the country and abroad.

In accordance with these rules it will be found that nearly the whole Customs revenue of the United Kingdom is derived from articles to which one or other of them is applicable.

In the year 1858, the net revenue received from the Duties of Customs, upon each of the following articles, was:

Coffee,	-	-	-	-	-	£440,000
Currants and Raisins,	-	-	-	-	-	432,000
Sugar and Molasses,	-	-	-	-	-	5,842,000
Tea,	-	-	-	-	-	5,186,000
Tobacco,	-	-	-	-	-	5,432,000
Wine,	-	-	-	-	-	1,703,000
Spirits,	-	-	-	-	-	2,264,000
Total,	-	-	-	-	-	21,299,000

The total net revenue derived from Customs, in that year, having been only about £23,830,000.

The changes in the Tariff of the United Kingdom at present under the consideration of Parliament, will, when completed, effect a large further reduction in the revenue derived from articles other than those enumerated above.

If similar conditions of production and financial requirement existed in all the portions of the British Empire, there would be nothing in the strictest principles of Economical Law, to prevent them from forming one vast Commercial Union, with a Common Tariff, and complete freedom of trade between them.

So far, however, from such similarity existing, the British Crown embraces in its rule, Countries exhibiting almost every conceivable variety of soil, climate, population and wealth, rendering the conditions both of production and consumption so diverse as to preclude the possibility of any common commercial system.

Any general assimilation of Tariff, therefore, or Freedom of Trade between all the different portions of the British Empire, is altogether impracticable, so long as it is found necessary or expedient to make external trade a medium of taxation.

It remains to consider how far it is possible to admit this policy in the case of particular portions of the possessions of Her Majesty, such as the group of the North American Provinces—the Australian Colonies—or the West Indian Islands.

It is easily conceivable that there may exist in two or more distinct possessions of the Crown, such an identity of character, both as regards their industrial and their financial condition as to render their commercial union compatible with the maintenance of the rules of Imperial Policy which have been indicated above; and wherever such identity is found, there appears to my Lords to be no reason, so far as commercial principle is concerned, to deter Her Majesty's Government from giving their assent to any such union, if it be desired by the several communities concerned.

The advantages of such an arrangement between the Colonies so contiguous as the North American Provinces, divided as some of them are only by a land or river frontier, are sufficiently apparent.

The maintenance of different Tariffs, and of Inland Custom Houses, is obviously both expensive and inconvenient, and must very seriously interfere with the natural operations of Trade.

In the case of the Australian group of British Colonies, the expediency of their adopting a common Tariff has, on former occasions, been considered by Her Majesty's Government, and although the measure has never been carried into effect, it is probable that if practicable, it might be attended with similar advantages.

The group of West Indian possessions do not present altogether similar conditions, nor do the motives of their commercial union appear so decided.

At the present time, however, it is only necessary to consider the case of the North American Provinces, but in sanctioning any measure of the nature of that under discussion it must be recollected that a precedent will be established which will make it difficult to resist future extensions of the principle which it would involve.

It may be denied that the commercial conditions of the five provinces in question are of a similarity of general characteristic.

In all of them the principal industries are in connection with the field, the forest, or the sea.

Their exports are, with some varieties, principally flour, grain, butter and cheese, potatoes, timber, and lumber, coal, cattle, fish, furs and skins. Their imports chiefly manufactural goods and colonial produce, sugar, tea, coffee, tobacco, spirits and wine.

Their financial wants and resources must of course vary with circumstances, but there seems to be no essential obstacle of an insuperable kind to their Commercial Union.

In the abstract, therefore, it seems probable that such a measure as that under consideration might be adopted with regard to these provinces, without in any way infringing the principle of taxation which Her Majesty's Government desire to observe.

For such a purpose it would be only necessary for them to raise the whole of their Customs revenue from articles which none of them produce, such as Tea, Coffee, Tobacco, Sugar, Wine, or from articles of their own produce upon which they could place corresponding internal duties such as Spirits.

In all of them, however, an important part of their Customs duties are levied upon articles which they themselves produce, and upon which it would be very inexpedient to place such internal duties as should countervail the duties upon importations.

So long as this is the case, and from the experience afforded by the recent Canadian tariff, there seems no immediate prospect of a change in this respect, my lords are unable to perceive how an exclusive exemption from import duties, applicable to their respective produce, can be sanctioned without giving a serious extension to the protective system in Her Majesty's Colonial possessions, to the partial adoption of which, my lords have on several occasions expressed their strong objection.

They are therefore of opinion that the assent of Her Majesty's Government to the first proposition of the Executive Council of Canada, should not be given except under the following condition, viz :

That any exemption from import duty applied to the produce and manufactures of these provinces respectively, shall be equally extended to all similar produce and manufactures of all Countries.

This condition appears to my lords to supply a self acting rule, under the operation of which two or more British possessions may at any time avail themselves of the advantages which must result from complete freedom of trade between them, whenever, and whenever only, they can do so consistently with their own well understood interests and with those of the empire at large.

More than this, my Lords do not think such Colonies could themselves desire, except from a wish to afford protection to each other's productions, an object which Her Majesty's Government cannot be expected to promote.

The second proposition of the Committee of Council viz: the assimilation of the tariff of all the North American provinces, is probably considered by that body as in a great measure dependent on the adoption of their first recommendation.

So far as this is the case, my Lords can, of course, only approve of it subject to the qualifications which they desire to enforce with respect to that recommendation.

It is not, however, necessarily dependent upon the former arrangement, and regarding it as a distinct proposal, my Lords can only say that on abstract grounds there can be no possible objection, either of principle or policy to its adoption by the common consent of all the Legislatures concerned.

In practice, however, the effect of such an assimilation upon the commercial interests of the Empire in general, and the Colonies in question in particular, must depend entirely upon the mode in which it is carried into effect, and it cannot be denied that the recent policy of Canada, as exhibited in the Tariff of 1859, presents a serious obstacle to the proximate realisation of such a project.

The Tariffs of all the other North American Provinces are more favorable to the principal exports of the United Kingdom than that of Canada, which, if not protective in its intention, is certainly so in its effect.

Their common adoption, therefore, of the Canadian duties, or of any nearer approximation to them than exists already, would, in the opinion of this Board be open to decided objection, unless it can be shewn that the financial condition of each of the Provinces in question afforded a justification for such a measure similar to that which was admitted in the case of Canada.

I have, &c.,

The Under Secretary of State,
Colonial Office.

JAMES BOOTH,

No. 34, 12th April.

GOVERNOR'S SECRETARY'S OFFICE,

Quebec, 2nd May, 1860.

SIR,

I am directed by His Excellency the Governor General, to enclose a Copy of a Despatch and Enclosure from the Secretary of State, and to request you to report to Council on the matter.

I have the honor to be,

Sir,

Your obedient servant,

R. T. PENNEFATHER,
Governor's Secretary.

The Honorable,
A. T. GALT,
&c., &c., &c.,
Finance Minister.

MEMORANDUM.

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The Minister of Finance has the honor to report to His Excellency the Governor General in Council upon the Despatch from His Grace the Duke of Newcastle, dated 12th April last, and upon the Report of the Lords of the Committee of Privy Council for Trade, dated 14th March last, on the subjects of the establishment of reciprocal Free Trade between the British Provinces of North America, and an assimilation of their respective Tariffs.

In their remarks upon the first subjects, my Lords distinctly admit that the identity of production and similarity of condition, render an arrangement for reciprocal Free Trade between Colonies so contiguous as the North American Provinces "sufficiently apparent"—and that "the maintenance of different Tariffs and of Inland Custom Houses is obviously both expensive and inconvenient, and must very seriously interfere with the natural operation of Trade." My Lords further state that "there seems to be no essential obstacle of an insuperable kind to their commercial union," and that the measure contemplated might in the abstract be adopted without infringing the principle of taxation, which Her Majesty's Government desire to observe. But my Lords proceed to state that "it would only be necessary for them (the Colonies) to raise the whole of their Customs Revenue from articles which none of them produce, or from articles of their own production on which corresponding Excise Duties could be imposed. That this condition could not be observed, my Lords immediately proceed to demonstrate, by stating that "in all of them, however, an important part of their Customs Duties are levied upon articles which they themselves produce, and upon which it would be very inexpedient to place such internal duties as should countervail the duties upon importations." And my Lords believing that there is no immediate prospect of a change in this respect, "are unable to perceive how an exclusive exemption from Import Duties applicable to their respective produce, can be sanctioned without giving a serious extension to the protective system in Her Majesty's Colonial Possessions, to

the partial adoption of which my Lords have on several occasions expressed their strong objections." They are therefore of opinion that the assent of Her Majesty's Government to the first proposition should not be given except under the following condition :

"That any exemption from import Duty applied to the Produce and Manufactures of these Provinces respectively, shall be equally extended to all similar Produce and Manufactures of all countries."

Upon this condition My Lords remark, that "more than this they do not think such Colonies could themselves desire, except from a wish to afford protection to each other's productions, an object which Her Majesty's Government cannot be expected to promote."

The undersigned respectfully submits that the condition proposed by My Lords is inconsistent with the state of facts which is admitted by their report to exist—and being calculated absolutely to defeat the object, becomes thereby opposed to the development of Free Trade, which Her Majesty's Government desire to establish as the commercial policy of the Empire. This state of facts, and the conclusion drawn from them, must either harmonize, or the conclusion must be erroneous, which is believed to be the present case, and the undersigned states with great deference that he believes it arises from My Lords having given too contracted a view to the principle of Free Trade.

My Lords state, "the fundamental principle of the policy of Free Trade is that no Duty of Customs shall be imposed, except for the purpose of revenue"—and they deduce therefrom—"To give effect to this principle it is necessary either to levy import duties upon those articles *alone* which are not produced in the importing country, or to place an Excise or Internal Duty equal in its amount to the Import Duty upon those articles which are produced both at home and abroad."

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The principle thus laid down and the deduction from it, do not, it is contended, embody Free Trade, but are only the application of it so as to suit the peculiar fiscal position of the British Islands. Free Trade has a much wider significance and requires the removal of all artificial burthens upon Trade. It cannot for a moment be argued that under the principle laid down by My Lords, there is Free Trade between Great Britain and America, while enormous duties are levied upon tobacco, or with China, while five millions of revenue are derived from Tea. In both cases the removal of the duty would vastly increase the consumption in the British Isles, and would stimulate Trade with these countries, while equally would the removal of their duties upon British goods, increase the export to buy Tobacco and Tea. It is therefore argued by the undersigned that the principle of Free Trade as stated by My Lords applies only to the distribution of taxation in the most equitable manner over the people, that it is necessarily subject to various modifications in its application, and that in relation to the colonies, Imperial policy ought not to be governed by one rule of economical science, but should be based upon wider and more general views, having regard not only to their individual welfare, but also to their future as outlying portions of Empire, strengthening Great Britain in proportion to their strength, and weakening her in proportion as they are themselves weak and divided.

The undersigned has already ventured to state, as his understanding of Free Trade, that it is the unrestricted interchange of the labor, skill and capital of mankind. The circumstances of the world and the jealousies of nations will probably for ever prevent its universal adoption, but an approximation should be sought wherever practicable, and plainly it can be more readily attained between subjects of the same Empire than between Foreigners, while it is also less subject to interruption from war or a change of national policy; My Lords themselves admit that it would be very desirable to have one common Tariff and commercial system for the whole British Empire, they regret that the diversity of soil, climate, population and wealth appear to forbid this hope, but they state that the dependencies of the Empire may be capable of being so grouped as to permit the application of the principle advantageously to them;

This is precisely the object sought by the Canadian Government, they desire to bring the North American Provinces under one system—to remove all restrictions on trade—to exchange the fish and coal of one province for the breadstuff and timber of another—and to carry out the true principle of Free Trade as fully as possible within their own jurisdiction.

The Canadian Government go further, and believe that were the principle once fairly at work here, the same system might be applied in the other Colonies, that instead of fifty different tariffs and commercial systems under the British Crown, they might easily be reduced to five or six. That it would then be infinitely more easy than at present to harmonize them with each other, and with that of the mother country, and while the financial requirements of the several portions of the empire, might yet render export duties necessary, they could be so arranged as to press most lightly upon the general resources and industry of the whole people.

My Lords propose to attach a condition to the adoption of this policy by the North American Colonies—which wholly forbids its acceptance. We are willing to admit the produce and manufactures of each other, but we do not choose to place other Countries on the same footing, from whom we receive no countervailing advantages—and to the manifest defeat of our policy of drawing more closely the bonds which unite us as dependencies of the same Empire. My Lords must surely admit that the proposition of Canada, is one that tends to remove existing restrictions upon trade—even if it does not go as far as their Lordships themselves wish—that it must increase the identity of feeling and interest between the North American Provinces,—and that on both grounds it should commend itself to the approval of Her Majesty's Government.

In further illustration of the argument of the undersigned, that my Lords have placed the grounds of their objections, on much too narrow a basis,—and that general political questions must be considered in connection with the subject, it may be desirable to point out, that the whole case of My Lords, rests upon the maintenance of a state of things in the North American Provinces, which is manifestly temporary, and which in the case of Canada has already been changed by the union. The argument and condition of my Lords only apply so long as these Provinces remain with separate legislative powers, the union of two or all of them would instantly give that measure of free trade which Canada desires. If this result then would flow from a political act which many Statesmen both at home and in the Colonies believe desirable, why should not the Provinces now be permitted to benefit by a commercial union, in anticipation of a more intimate political connection.

It appears to the undersigned that in the report of the Lords of the Committee of Privy Council for Trade, another and important constitutional question is raised, in regard to the right possessed by two or more Colonies, each possessing self-government, to arrange between themselves the terms upon which their commercial intercourse shall be maintained. The views held by my Lords appear to point at the assertion of a degree of contest on the part of the Imperial Authorities, which would not be urged against the independent action of any one such Colony. The point in question appears to the undersigned of great importance, and raises a new and more extended view of the relations which Constitutional Colonies bear towards each other. It appears therefore to the undersigned that it would be very desirable to have a thorough exposition of the views of the Imperial Government on the question of the powers of the several Constitutional Colonies, to decide themselves upon subjects connected with their internal Trade, in order that a proper understanding may exist and that the difficulty may be avoided of discussion arising hereafter upon action taken by the Colonies.

20th August, 1860.

A. T. GALT,
Minister of Finance.

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*Received of the Hon. Secy of the Navy
the sum of \$247.86*

*For the purchase of
Cotton Seed for the
use of the Navy
at the rate of \$1.00 per lb.
for the year 1850*

*(Signed) J. M. Smith
Hon. Secy of the Navy*

*Wm. H. Smith
Hon. Secy of the Navy*